# California Higher Education Finance: Surveying the Alternatives

*A Presentation by Staff of the California Postsecondary Education Commission to the Assembly Higher Education Committee*

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CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
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## Principles Considered by CPEC in Reviewing the Options

In reviewing each of the ten proposed options, the Postsecondary Education Commission staff considered the following seven principles in determining the potential utility of each option:

- Impact on Student ***Access*** to Postsecondary Education;
- Impact on the ***Quality*** of Postsecondary Education Programs And Institutions;
- Impact on the Overall ***Affordability*** of Postsecondary Education;
- The General ***Reasonableness*** of the Option and the Ease of Publicly Conveying the Option to Students and Members of the Public;
- ***Ease in Implementing*** the Option;
- Length of ***Time Required to Implement*** the Option in an Effective Manner; and
- The Likelihood of the Option Generating ***Cost Savings***.

The Commission's recommendation to the Committee as to whether it should further explore each option is based upon these seven principles.

Reviewing these options highlights the difficult choices that must be confronted if there are to be further cuts in funding for higher education. Additional reductions would seriously and adversely impact access and/or quality. The Commission stands ready to assist in consideration of these tough issues with the understanding that it has an obligation to the students and public to ensure that all that can be done to protect access, quality, and affordability will be done. Further, the Commission has the responsibility to ensure that policy makers and the public appreciate and understand how resource allocation decisions impact the four major interests concerned with the funding of educational opportunity – the State, the institutions, the students, and the general public.

It should noted that the Commission's comments are designed to supplement the issues and concerns raised in the analyses prepared by the Assembly Higher Education Committee. All of these options have significant technical and administrative issues and concerns that would need to be addressed if they were to be implemented effectively.

## LEARN, EARN, AND REIMBURSE

- Impact on Student Access: Could potentially increase access since students would not be required to pay student fees at the time of enrollment.
- Impact on Quality: Unclear, since the option does not ensure that institutions will have sufficient revenues to ensure the quality of their educational program offerings.
- Impact on Affordability: In the short-term would make obtaining a higher education more affordable and accessible; in the longer-term, it is unclear how the "reimbursement phase" would impact students, institutions, and the overall State budget and economy.
- Reasonableness and Ease of Publicly Communicating the Option: The option would be a significant departure from the financing model used by the rest of American higher education. This departure from the norm could make the option difficult for the public to accept and understand.
- Ease of Implementation: Questionable; serious questions exist concerning: (1) the ability of the State to ensure that students repay or "reimburse" after they have completed their educational programs and (2) the option's interaction with existing student financial aid program structures.
- Time Required for Effective Implementation: Could not be *effectively* implemented immediately. To be effectively implemented, the State should undertake a comprehensive public awareness plan so that the public understands and is prepared for this significant change in the financing of publicly supported higher education.
- Likelihood of Generating Cost Savings: Unclear whether the option would generate any cost savings and, in the short-term, would require additional State resources during the start-up phase.

CONCLUSION: Not an option that will assist the State or its higher education institutions in addressing the short- or long-term fiscal challenges.

## HIGHER EDUCATION VOUCHERS

- Impact on Student Access: Unclear; would be dependent upon a number of variables including the value of the vouchers, the price charged by higher education institutions, and the continued availability of student financial aid. Also unclear is the impact that such vouchers would have on students seeking to enroll in impacted educational programs and on students who are "place-bound."

- Impact on Quality: Could lead to greater competition between and among educational institutions, thus resulting in greater attention to educational program quality. However, since the revenues available to each institution would be less certain, implementation of the option could also result in diminishment of educational quality at some institutions.

- Impact on Affordability: Again, unclear, as it would be dependent upon a number of variables including the value of the vouchers, the price charged by higher education institutions, and the continued availability of student financial aid.

- Reasonableness and Ease of Publicly Communicating the Option: Implementation of the option would increase the public's awareness of the State's investment in and contribution to a student's higher education. Implementation of the option might result in creating a public expectation of entitlement for a certain level of voucher funding.

- Ease of Implementation: Would require a new system for the distribution of the education vouchers to eligible students. The voucher system would not ensure institutions have a stable, predictable, and reliable level of resources to support their operations. This lack of resource predictability would likely make it extremely difficult for institutions to effectively plan and function, particularly during the initial years of voucher implementation.

- Time Required for Effective Implementation: This option could be implemented only after numerous technical and administrative issues are resolved. Further, in order to most effectively implement this option, it would be beneficial for the State to announce the change in advance to provide students, institutions, and the public with an opportunity to understand and adjust to this significant change in the financing of higher education.

- Likelihood of Generating Cost Savings: Would be dependent upon the value of the education vouchers -- might not generate any cost savings. New costs would also be incurred in distributing the vouchers to eligible students and reimbursing institutions for the vouchers they accept.

CONCLUSION: Given the numerous issues that still need to be resolved, the fact that the option cannot be implemented within next year, and the likelihood that the option would not result in cost savings but rather additional costs, the Commission does not encourage the Committee to explore this option in further detail at this time.

## FUND "COMPLETERS"

- Impact on Student Access: Institutions may be less inclined to encourage and enroll marginal and less well prepared students since they have a greater likelihood of not completing their studies and the institution would receive no resources for such students under this option.
- Impact on Quality: Educational quality and access to student services for some students may improve since this option creates an incentive for institutions to ensure that students complete their studies. However, faculty might also be encouraged to lower their education standards in order to ensure that more students complete their studies and the institutions can continue to receive funding.
- Impact on Affordability: Unclear what impact, if any, this option would have on the affordability of higher education.
- Reasonableness and Ease of Publicly Communicating the Option: This option has significant implications for the role, mission, and function of the community colleges since California's Master Plan requires the community colleges to enroll all students regardless of their likelihood of success. Given this, it is unclear whether the general public would support a significant change in the community colleges that would be required in order to consider this option a viable alternative.
- Ease of Implementation: Unclear how easily this option could be implemented. Would public institutions receive loans at the beginning of the year to support their operations that would subsequently be repaid based on their "completers?" Further, this option would not ensure institutions have a stable, predictable, and reliable level of resources to support their operations. This lack of resource predictability would likely make it extremely difficult for institutions to effectively plan and function, particularly during the initial years of implementation.
- Time Required for Effective Implementation: After numerous policy, administrative, and technical issues are resolved; this option could probably be implemented relatively quickly.
- Likelihood of Generating Cost Savings: Unclear.

CONCLUSION: Does the State want to encourage institutions not to enroll students who are under-prepared for collegiate-level studies or who have a history of dropping out of their educational programs? If so, is this the most effective approach for addressing those concerns? Given that these students are, more often than not, from rural and underrepresented backgrounds, this would be a significant departure from the State's attempts to increase the participation of these students in higher education. For these reasons, the Commission staff does not believe that it would be a valuable expenditure of time to further explore this particular option.

- Impact on Student Access: In order to pursue this option, the State would have to specifically determine the number of students it wishes to support at each educational level. At the outset, this could be more or less than the number currently supported and, thus, it is difficult to determine the ultimate impact of this option on student access.

- Impact on Quality: The option could result in lower quality at some levels of instruction if the State is unwilling to provide the level of resources necessary to support the cost of quality instruction at each level.

- Impact on Affordability: Unclear what impact, if any, implementation of this option would have on the affordability of higher education.

- Reasonableness and Ease of Publicly Communicating the Option: May be difficult to explain to the public why this change in funding is being made since it is likely perceived to be largely a technical issue.

- Ease of Implementation: May be difficult to implement, since the state lacks sufficient data concerning the costs of instruction by level.

- Time Required for Effective Implementation: Could not be implemented immediately, since additional data and analysis would be required to determine the appropriate funding to provide at each level of instruction.

- Likelihood of Generating Cost Savings: Unclear whether implementation of this option would generate any cost savings.

CONCLUSION: In considering this option, the fundamental question that the Committee needs to address is whether it is willing to engage in determining how many students should be educated at each level of instruction or if it is willing to require that some students be redirected from one system to another because of cost differences. These are complex issues that have significant social, educational, and economic implications. If the Committee wants to pursue these issues, then additional data concerning cost and impact are needed. If, however, the Committee is not willing to engage in a discussion of the serious value issues raised by these questions, then no additional information is needed and this option should be removed from further consideration.

## INCENTIVE FUNDING FOR STATE PRIORITIES

- Impact on Student Access: Could improve and enhance student access if some portion of the incentive funds were earmarked for student access outcomes.
- Impact on Quality: Again, could improve educational quality if some portion of the incentive funds were earmarked for educational quality improvements.
- Impact on Affordability: Would likely have little, if any, effect on affordability.
- Reasonableness and Ease of Publicly Communicating the Option: Provided the incentive funding priorities were clearly defined, this option could be easily explained and understood by the public.
- Ease of Implementation: While several technical and administrative issues would need to be resolved prior to implementation (including potential statutory change in some existing funding formulas), this option could be implemented relatively easily.
- Time Required for Effective Implementation: Once the state's priorities for higher education are identified and several technical and administrative issues are resolved, this option could be implemented relatively quickly.
- Likelihood of Generating Cost Savings: This option would likely not generate any cost savings.

CONCLUSION: The Commission and its staff consider it critical for the State to identify priorities for higher education and potentially earmark some portion of State resources to be distributed to its educational institutions based upon their performance and success in addressing those identified State priorities. *The Commission staff strongly encourages the Committee to continue its exploration of this option* and it intends to develop recommendations for consideration by the Legislature and Governor in the coming months.

- Impact on Student Access: Depends upon several factors including what specific student fee management approach is implemented, how much additional student financial aid is provided, and how the message concerning the student fee increases is communicated.
- Impact on Quality: Additional student fee revenues can help support continuation of high quality educational programs and, without such revenues, educational quality may decline.
- Impact on Affordability: Depends upon the level of additional student financial aid funding and the overall level of student fee increases. Unfortunately, under all options, affordability will likely decline for students from some socioeconomic backgrounds.
- Reasonableness and Ease of Publicly Communicating the Option: Depends upon which student fee management option is implemented. Most, if not all, of the proposed options will evoke some public outcry and resistance.
- Ease of Implementation: Most of the options can be implemented easily.
- Time Required for Effective Implementation: Most of the options can also be implemented relatively quickly, although advance notification would assist students, parents, and general public in better preparing for the change.
- Likelihood of Generating Cost Savings: While not generating cost savings, these student fee management options would generate additional revenues that could be used to offset current General Fund shortfalls.

CONCLUSION: Whether we like it or not, changes in student fees are one component of balancing higher education budgets. Student fee management options should be considered along with other options such as changes in student enrollment levels, cost containment and avoidance, and efficiency and productivity enhancements to balancing higher education budgets. *The Commission has long advocated that the State adopt a long-term policy for setting and adjusting student fees. The Committee may wish to revisit and potentially revise its student fee policy bill of last year (AB 843).* CPEC has done extensive analyses of various student fee options.

- Impact on Student Access: Could result in less student access, especially among students from the lowest-income backgrounds. Overall impact on access would be dependent upon the availability of student financial aid and student access could decline if additional student aid is not provided.
- Impact on Quality: Quality at the institution could be affected based upon the overall level of resources available to each program under the modified system.
- Impact on Affordability: Overall affordability would likely decline.
- Reasonableness and Ease of Publicly Communicating the Option: While changes in the policy may be easily accepted by the public for some professional school programs such as law, for others such as nursing and medical schools these changes may not be as readily acceptable to the public.
- Ease of Implementation: Relatively easy to implement although several technical and administrative questions would need to be resolved. Students enrolled in the University of California's professional schools are already assessed significantly higher student fees. This option would result in some of those professional student fee differentials increasing even further.
- Time Required for Effective Implementation: While this option could be implemented relatively quickly, several technical and administrative concerns would still need to be addressed.
- Likelihood of Generating Cost Savings: Since students enrolled in professional school programs at the University of California are already paying significant amounts for their education, this option would generate little additional student fee revenue.

CONCLUSION: While some public subsidy still exists in the professional degree programs offered by the University of California, much of that subsidy has already been significantly reduced through the professional student fee differentials currently assessed at UC. While the professional school student fee levels could be increased further and the State subsidy reduced further, such changes will not result in significant additional revenues. Further, in doing so, it raises additional issues concerning the diversity of students enrolled in the programs and whether the state's professional labor force needs will be adequately meet.

## COMPREHENSIVE RESTRUCTURING OF FINANCIAL AID PROGRAMS

- Impact on Student Access: Unclear, depends upon how the programs are restructured and the overall level of funding provided for student financial aid.
- Impact on Quality: Little, if any, direct impact on educational quality if total funding remains the same.
- Impact on Affordability: Affordability could be enhanced if funding for student financial aid is increased. Similarly, affordability could be further jeopardized if overall student financial aid funding is reduced.
- Reasonableness and Ease of Publicly Communicating the Option: Depends upon how the system is restructured.
- Ease of Implementation: Restructuring likely will not be easy to implement given the multiple different programs and sources of funding that currently comprise the existing system.
- Time Required for Effective Implementation: This option is not one that could be implemented quickly. To develop a plan for restructuring the financial aid system, far more data, analysis, and review must occur.
- Likelihood of Generating Cost Savings: Likely will not result in cost savings and, depending on the administrative structure developed, may result in increased, rather than reduced, costs.

CONCLUSION: Pursuant to Supplemental Report Language to the 2003-04 State Budget, CPEC has been requested to complete a review and analysis of the interaction between the State's Cal Grant programs and the institutional aid and fee waiver programs administered by the State's colleges and universities. That report is to be completed by April 15, 2004. *The Commission staff would encourage the State to review the findings of that examination prior to developing a plan for the overall restructuring of California's student financial aid system.*

## USE TECHNOLOGY TO IMPROVE THE QUALITY OF STUDENT LEARNING

- Impact on Student Access: Could potentially enable more students to enroll and access courses without a significant increase in State resources.
- Impact on Quality: Unclear, although the goal of this option is to improve overall educational quality and enhance student learning through the use of technology.
- Impact on Affordability: Unclear, but likely would not have a direct impact on affordability.
- Reasonableness and Ease of Publicly Communicating the Option: As more and more of our daily functions rely upon some form of technology, the public likely would generally understand the need for and benefit from offering key courses through the use of technology.
- Ease of Implementation: Likely not implemented easily. Might also encounter significant resistance to the proposal from faculty members and others who support more traditional instructional methods. Also, technology may be an effective instructional delivery approach to improve the learning ability of some students, but it may not necessarily be the best approach for all students.
- Time Required for Effective Implementation: Because of the time required to redesign the selected courses and to achieve buy-in from affected constituencies, this option cannot be implemented quickly.
- Likelihood of Generating Cost Savings: Unclear, although the goal would be to achieve cost savings.

CONCLUSION: This option is worthy of further exploration and analysis bearing in mind, however, that the option cannot be implemented immediately and would require a significant amount of consultation with affected constituencies. The Commission is working with CENIC, IBM, and others to convene a "Summit" on the use of technology. Tentatively scheduled for December 8, the "Summit" would bring together key individuals from all educational sectors and the business community to discuss how technology is currently being used, what is the potential use of technology, and what actions can be taken to promote more effective utilization of this resource.

## CREATE A TRUST FUND: CALIFORNIA HIGHER EDUCATION OPPORTUNITY FUND

- Impact on Student Access: Could help support and sustain student access to California higher education during bad economic times.
- Impact on Quality: Could help support and sustain the quality of California higher education during bad economic times.
- Impact on Affordability: Could help stabilize and make California public higher education more affordable during bad economic times.
- Reasonableness and Ease of Publicly Communicating the Option: The general public would likely understand and might possibly support the need to set aside funds to assist higher education during downturns in the State economy.
- Ease of Implementation: While setting aside some portion of revenues for bad economic times may be rational, based on past behavior, it may be difficult to accomplish since even in good times there are desires for more resources to address priorities and current needs.
- Time Required for Effective Implementation: After addressing and resolving several technical and administrative issues, the option could be implemented relatively quickly.
- Likelihood of Generating Cost Savings: Likely would not generate cost savings.

CONCLUSION: This option is intended to address the "boom and bust" cycle prevalent in the current financing system for California public higher education. However, for this option to function effectively, it would require the restraint of the Governor and Legislature during good economic times to not only set aside the specified resources, but it would also require their restraint during bad economic times to not further reduce funding just because of the availability of the "education trust" account. *The Commission staff is supportive of reducing the "boom and bust" cycle of California higher education finance, and encourages further consideration of this particular option. However, such an option is likely to be effective only if there is a significant disincentive to raid the "fund" – such as an automatic tax hike if the "fund" drops below a certain amount.*